Grouping - Sister Service Experience: Lessons Learned

Presented by: Ralph Basile & Matt Brookman

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How were lessons learned?

- Since 1995, BBP has assisted the Navy and Marine Corps in all aspects of family housing privatization
  - 11 deals closed; 16,052 units privatized
  - 4 pending solicitations; another 16,000 units
- BBP is also currently assisting the Navy and Marine Corps in the privatization of unaccompanied housing, formulating legislative and policy initiatives, performing feasibility analyses, and developing concepts for three "pilot" projects
- BBP is also assisting the Coast Guard on privatizing their family housing
- BBP was selected by AFCEE as the PSC on its pilot project at Patrick AFB and later as PSC under the umbrella contract (2 deals closed, with a 3rd in early 2004)

Grouping: Early Successes

- With BBP's assistance, this approach has proven very successful for the Navy with 3 grouped projects awarded (8,200 units), including Camp Pendleton II/Quantico that grouped 4,534 units on opposite coasts
- BBP is currently planning 8 additional bundled Navy/Marine Corps projects (possibly more if some projects are split into 2 or 3 phases) that would result in the privatization of over 40 bases and approximately 30,000 units

Grouping: Why It Works

- Can privatize more units
  - Allows projects that may be "dogs" to benefit from excess sources at other bases
    - Ensures military families at bases with a project funding gap can have adequate housing
  - Allows projects that may not be executable due to lifecycle constraints to be grouped with other bases
    - Rather than permit SO's to exceed project scope in a single project, grouping eliminates the "rich are getting richer" argument

Grouping: Why It Works (cont)

- Saves time and Government resources
  - Numerous bases can be privatized under a single solicitation
  - Can complete a privatization transaction for several bases with about the same amount of time/manpower it would take to privatize a single base

Grouping: Why It Works (cont)

- Saves money
  - By not executing multiple contracts, the Government saves consultant and other up-front solicitation costs
  - By eliminating Government O&M and manpower expenses at bases that normally could not be privatized

Grouping: Why It Works (cont)

- Saves Scored Cost
  - Use excess funding to lower scored cost at other bases by grouping them together in a single project
  - If the amount of the Government loan is reduced or possibly eliminated, more funds are able to flow into the Reinvestment Account for future investment into the project, instead of being sent to the Treasury to pay back the loan
  - Lenders may be less likely to require a loan guarantee since a grouped project spreads risk over more units, thereby reducing the overall project risk

Grouping: Why It Works (cont)

- Attracts more prominent housing developers and management companies
  - Large national housing developers and management companies may not be interested in a project containing only 500 units; however, 4 bases containing a total of 2,000 units is a significant development deal

Grouping: Typical Concerns

- Question 1: What if a base within a grouped project is closed or realigned?
- Question 2: Will a grouped project containing thousands of units in different locations be more difficult to manage?
- Question 3: How is consensus reached initially to pursue a grouped base project and later when making transactional decisions?

Grouping: Solutions

- Question 1: What if a base within a grouped project is closed or realigned?
  - Scenario 1: Affected base is a “drain” on the project
    - Solution: Schedule construction activity at likely BRAC candidates to occur last
    - Result: Since the base is closed and is no longer a drain, the rest of the grouped bases benefit

Grouping: Solutions (cont)

- Question 1: What if a base within a grouped project is closed or realigned? (cont)
  - Scenario 2: Affected base is a "cash cow" and is in a favorable housing market
    - Solution: If closed, rent or sell the housing units
    - Result: Net benefit to the rest of the grouped bases

Grouping: Solutions (cont)

- Question 1: What if a base within a grouped project is closed or realigned? (cont)
  - Scenario 3: Affected base is a "cash cow" but is in an unfavorable housing market (unlikely that a base in an unfavorable housing market would be a "cash cow")
    - Solution: Schedule construction activity at likely BRAC candidates to occur last and if closed, rent or sell the housing units
    - Result: Losses to the rest of the grouped bases are minimized (can be further minimized by initially modeling more conservative assumptions)

Grouping: Solutions (cont)

- Question 2: Will a grouped project containing thousands of units in different locations be more difficult to manage?
  - No – all bases have resident managers; since more units within the project means larger economies-of-scale and cost savings, resident managers should have more resources at their disposal
  - Quality companies already manage tens of thousands of units in several states; so, managing a grouped project across several bases and states would be no different than their current operating practices.

Grouping: Solutions

- Question 3: How is consensus reached initially to pursue a grouped base project and later when making transactional decisions?
  - Strong high-level leadership is exerted
  - "The needs of the many outweigh the needs of the few" – *Spock, 23rd Century ("Star Trek")*

Grouping –
Sister Service Experience:

Lessons Learned

Questions?